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GUANCHIAS LIMITADA: A CASE STUDY OF AN AGRARIAN REFORM COOPERATIVE AND ITS LONG-TERM RELATIONSHIP WITH A MULTINATIONAL FIRM IN HONDURAS

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SUMMARY

This study was prepared under contract with the U.S. Agency for International Development (AID) to analyze the developmental significance of private enterprise collaboration between a multinational agribusiness firm and an agrarian cooperative operating in Honduras. The study traces and analyzes the development of Guanchias, Ltd., a banana production cooperative, from its inception in 1965 and its first contract in 1968 with Standard Fruit and Steamship Co., a U.S.-based agribusiness firm, to its status at the end of 1983.

The Standard-Guanchias relationship is sometimes criticized as a one-sided partnership between a "paternalistic benefactor" and "contracted labor." Yet this distorts the social and economic realities of the Honduran setting. It also ignores a high level of human and institutional growth in the cooperative and its members over 15 years. During that time both Standard and Guanchias made concessions and each made profits.

Key elements in the success of the Standard-Guanchias contractual relationship were (1) Guanchias' strong cooperative commitment, reliability, and capacity to learn as a business partner; and (2) Standard's financial support, technical assistance, and guaranteed market for Guanchias' quality fruit.

From exposure to Standard's work discipline, business ethic, and technical procedures, co-op members learned how to enhance profits by becoming more efficient laborers and managers and to reinvest capital earnings into productive and socially satisfying investments in their institution. For its members and their families, Guanchias was able to acquire and underwrite costs of potable water; sanitation services; and improved housing, education, and health care.

Perhaps the most impressive achievements of Guanchias, apart from material and social improvements, have been the levels reached in acquired technical, managerial, and negotiating skills. The co-op produces the same high quality bananas as its foreign business partner, bargains as an equal, and obtains major concessions from its more sophisticated partner.

In 1968, when the contract was negotiated, Standard faced problems associated with landless peasants and unionized farm labor. It hesitated before expanding into new investments in land and capital equipment and assuming additional management burdens. The company sought to minimize the investment risks by instituting an independent growers program; Guanchias applied to be a part of that program.

Standard realized both direct and indirect benefits. The costs of the program were far less than the investment costs that Standard would have incurred in its absence. In contracting with independent growers, Standard is assured a supply of quality bananas to meet its global commitments. It thus reduces some of the uncertainty often associated with investments in Third World countries. Another benefit to Standard is the intangible but real factor of good public image for the corporation that results from its innovative involvement with the independent growers.

Just how the Standard-Guanchias relationship will evolve in the future, however, is neither clear nor predictable. Several social and economic factors pose policy questions for the two principals, for leaders of the Honduran public sector, and perhaps for foreign assistance donors. These concern how human resources will be developed in the future: policies to improve the climate and course of foreign investment, levels of credit assistance, as well as mechanisms and incentives which might encourage or enhance agricultural and private enterprise development in Honduras.

The continued reliance of Guanchias on Standard for materials transfers, extensive credit, and technical assistance suggests a mutual acceptance of their interdependency. Indeed, the contractual relationship between Standard Fruit and the Guanchias cooperative has well served the social and economic objectives of the two parties to the joint venture and has also been good for economic, human, and institutional development in Honduras.

GLOSSARY

AID	The U.S. Agency for International Development.
AIFLD	American Institute for Free Labor Development. The international arm of the AFL-CIO.
ANACH	National Association of *Campesinos* of Honduras. Oldest and strongest of the *campesino* organizations, interested primarily in political organization of *campesinos*. Its primary funding source is AIFLD.
BANADESA	Honduran National Agricultural Development Bank, (replaced BANAFOM). Its primary emphasis is on agricultural development.
BANAFOM	National Development Bank. The first Honduran national development bank.
COHBANA	Honduran Banana Corporation. A parastatal banana marketing company.
DIFOCOOP	Directorate for Cooperative Development. An autonomous Honduran Government agency responsible for general administration of the laws governing cooperatives, in particular the auditing and inspection of cooperatives and the initial approval of organization.
FECORAH	Federation of Cooperatives of Agrarian Reform in Honduras. The only legally recognized peasant organization, it focuses primarily on providing practical organizational support activities.
FENACH	National Federation of Honduran Peasants.
FENAGH	National Federation of Farmers and Ranchers of Honduras.
FESITRANH	The first Honduran trade union federation that was primarily for banana workers.
GOH	Government of Honduras.
IFC	Honduran Institute for Cooperative Research and Training. A private institution that promotes literacy and training programs for cooperatives and their families.
INA	Honduran National Agrarian Institute.

GLOSSARY (cont.)

INFOP	Honduran Institute for Professional Formation.
ORIT	Inter-American Regional Organization of Labor. The Latin American expansion of the AFL-CIO.
PROCARRA	Educational Program for Agrarian Reform. The educational and training program unit of INA.
UNC	Honduran National Union of *Campesinos*. *Campesino* organization with the strongest leftist perspective, primarily interested in political organization.

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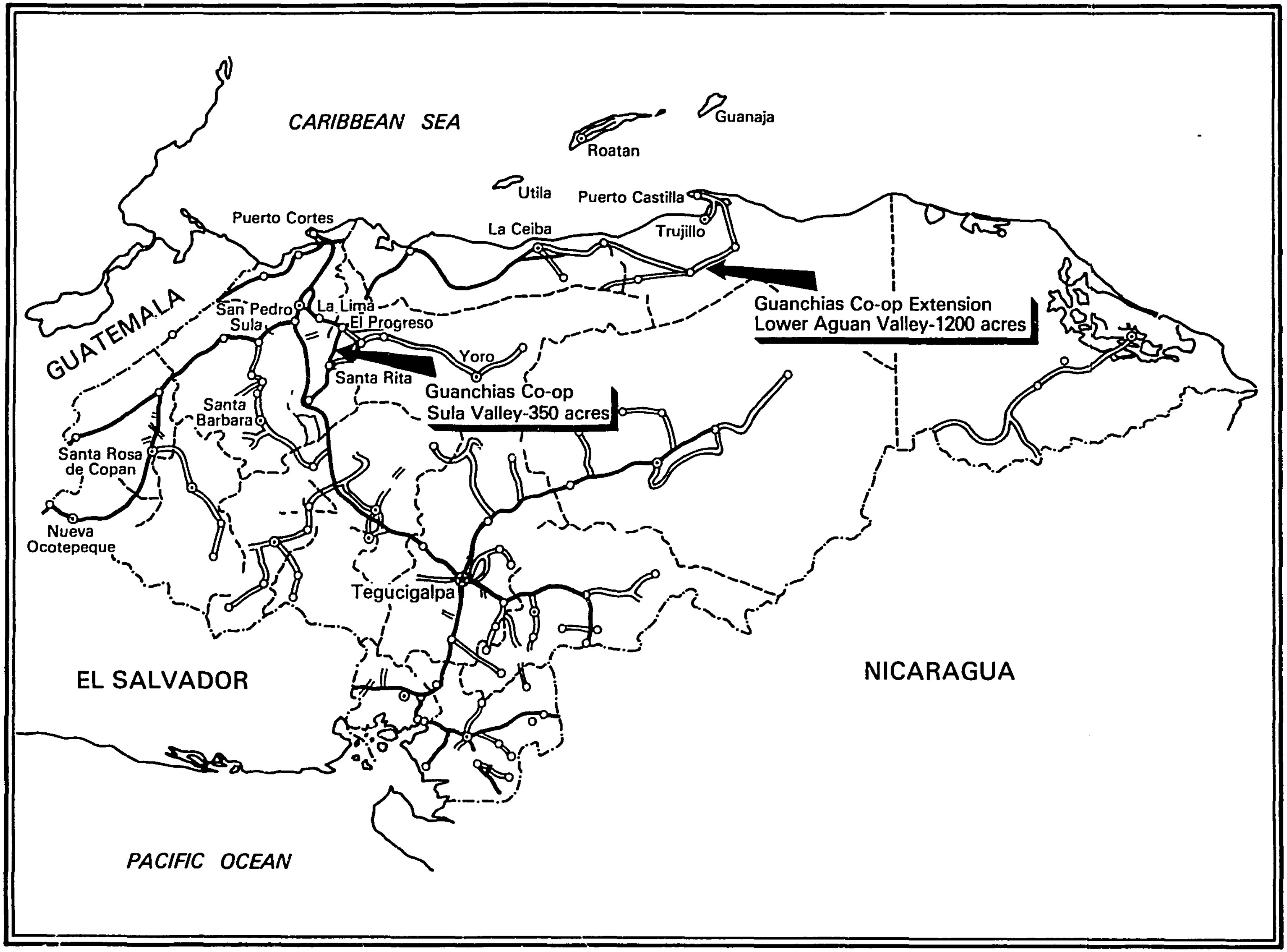
CARIBBEAN SEA
Guanaja
Roatan
Utila
Puerto Castilla
Trujillo
La Ceiba
Puerto Cortes
San Pedro Sula
La Lima
El Progreso
Yoro
Santa Rita
GUATEMALA
Santa Barbara
Santa Rosa de Copan
Nueva Ocotepeque
Guanchias Co-op Extension
Lower Aguan Valley-1200 acres
Guanchias Co-op
Sula Valley-350 acres
Tegucigalpa
EL SALVADOR
NICARAGUA
PACIFIC OCEAN

1. INTRODUCTION

Guanchias, Ltd. is a banana-producing cooperative in the Sula Valley in north-central Honduras. In its 18 years of existence, it has achieved economic growth and effected social improvements in the lives of its members. These accomplishments have been attributed, in part, to the contractual relationship that Guanchias has maintained for the past 15 years with the Standard Fruit and Steamship Company, a U.S.-based multinational agribusiness firm.[1]

The relationship is noteworthy as it involves collaboration between two distinct entities: an agrarian cooperative and a multinational corporation--whose interests are often perceived as antithetical. Multinational corporations view agrarian reform with apprehension because it typically involves expropriation of foreign-owned investments. For their part, cooperatives tend to be suspicious of multinational corporations and to regard them in the abstract as exploitive and oppressive. Yet, Guanchias and Standard found their joint business venture to be mutually beneficial and profitable. Both continue to realize benefits through it; both want to maintain it.

The material benefits realized through the relationship are especially significant given the Honduran context. Honduras is one of the poorest of the Central American countries. Ninety percent of the country's 3.9 million inhabitants in 1982 had an annual per capita income of US$120. Over one-half of the population have no access to health services; two-thirds are without potable water or sanitation services; three-fifths do not have electricity.

Over three-fifths of the population is rural. Yet, a number of constraints, including shortage of agricultural credit, lack of clear land title, and technical agronomic problems, have discouraged more intensive cultivation. Concurrently, both recurrent and long-term migration have increased as rural men and women seek employment in urban areas.

This migration is critical given the importance of the agricultural sector. Traditionally, the mainstay of the economy has been agricultural production which accounts for 25 percent of the gross domestic product, supplies over 60 percent of all export earnings, and employs 55 percent of all economically active

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[1]Standard Fruit and Steamship Co. became a subsidiary of Castle and Cooke, a U.S.-based marketing and food production firm, in 1961. Operations in Honduras continued under the Standard name.

people. Major export crops include bananas, coffee, sugar tobacco, and cotton, with bananas the largest export item.[2]

The potential of the agricultural sector could be developed to meet the demands for improvement in the standard of living. One possibility is through collaborative relationships with small farmers in the private sector. The Guanchias-Standard relationship suggests one approach to the development of human resources and the promotion of foreign investment. In investigating this possibility, this study explores the development of the Guanchias cooperative and its relationship with Standard and evaluates the mutual benefits from this relationship.

2. HISTORICAL CONTEXT

Armando Fuentes, a founding member of Guanchias, explained the frustration of the cooperative when it first began in 1965. "We were hungry. Our children were hungry. All we wanted was a piece of land to grow crops on. For that they called us Communists. We didn't know what communism was, but we told them, 'If this is communism--to want to till your own land--then communism is good and we're Communists." Now, 18 years later, as Fuentes ironically points out, "The success of Guanchias has earned us labels of 'bourgeois' and 'capitalists.' If having enough food and some business success is being capitalist, then we're capitalists. We just want to look out for our children."

The historical context is essential in understanding the factors that shaped the establishment of Guanchias and the negotiation of its contract with Standard. The particular impetus and rationale for these events flowed from the 1954 banana strike against United Fruit Company.

2.1 Agrarian Reform

The agrarian reform movement in Honduras has been different from that in other Central American countries. Part of the difference is the result of the historical concentration of the agricultural sector in banana production and the domination of this sector by foreign agribusiness firms, a situation that

[2]Department of Economic Studies, Central Bank of Honduras, Honduran Statistics: 1980-82 (Tegucigalpa, 1983), pp. 3, 6, 19.

inclined some observers to label Honduras as the stereotypical "banana republic." Honduras also has been different in its lack of a landed oligarchy for most of its early history. With low population density, marginal land pressures, and relatively benign domination by landed power groups, Honduran land reform efforts have been low key in comparison to those in other Central American countries. Agrarian reform became an active issue only in the 1960s. Before this time, many small farmers without adequate land for farming obtained employment on the foreign-owned banana farms.

Layoffs in the banana industry after the 1954 strikes against United Fruit changed this balance. As the economy lagged, many laborers were laid off by the fruit companies. These reductions in the labor force led to an increase in the number of landless peasants and unemployed laborers competing for limited available land. While the official Government attitude toward agrarian reform was not oppressive, neither was it wholeheartedly supportive.

Peasant agitation for land concessions increased in the early 1960s with the slow economic recovery. To press their claims, Honduran peasants drew on the experience of the banana workers and formed two main organizations, the National Association of Honduran Peasants (ANACH) and the National Peasant Union (UNC). Both encouraged members to be more aggressive in their pressure for land concessions.

Peasant demands for an active agrarian reform policy received support in the early 1960s from the U.S. Alliance for Progress, which tied receipt of assistance funds to evidence of an established land reform program. With this impetus, the Government of Honduras (GOH) in 1962 enacted passage of its first agrarian reform law and the establishment of the National Agrarian Institute (INA) to oversee the program.

Despite the promises of the agrarian program, however, implementation of reform was less comprehensive than planned. Following a military coup in 1963, the program was halted abruptly. Although INA was not dismantled, lack of funding left it inert. Once again small farmers and peasants found themselves without a Government advocate. To support their claims, peasants turned to organized militant activity advocated by the national organizations.

Use of tactics such as land invasions increased as peasants occupied fallow lands, using the 1962 law as a justification for putting the land to "social use." This increase in peasant agitation led the GOH in 1968 to appoint a new director of INA, Rigoberto Sandoval, who was more supportive of peasant claims. Under his direction, INA became an active advocate of implementation of agrarian reform. However, as in 1963, the hopes for an effective land reform policy were again short lived. As a result of a series of abrupt policy shifts following political changes of power, Sandoval resigned from the program after 3 years. Subsequent attempts to implement agrarian reform policy were limited and often half-hearted, depending on the policies of the parties in power and their willingness to face the opposition of influential special interest groups.

2.2 The Origins of the Guanchias Cooperative

Between 1962 and 1965 a group of small farmers and former United Fruit employees laid off by the company in 1961 struggled to obtain land abandoned by United Fruit and taken over by INA. Under terms of the 1962 law, the land was public and available for settlement.

Despite the legal basis to their claim, official land concessions were not readily forthcoming. The GOH was under pressure from the National Federation of Farmers and Ranchers of Honduras (FENAGH) and other representative groups of large landowners to resist peasant pressure. Large landowners suspected that agitation to acquire land and pressures leading to occupation were Communist inspired. The situation was not helped by the fact that, since passage of the 1962 law, no cooperative had been supported by INA in pressing claims for land entitlement.

Finally, in 1965, after 3 years of legal petitioning, 85 members of the group took the law into their own hands and invaded and occupied the disputed land. The first year as a "precooperative" was a difficult period. Initially, the land invasion was not supported by INA and, without legal standing or land ownership, efforts to obtain funding from BANAFOM, the first Honduran development bank, were hampered.

INA did provide technical assistance. Extension agents who visited the co-op believed that banana cultivation, which the co-op wanted to pursue, was too expensive and risky. Instead they advocated cultivation of corn. While reluctant to follow INA's advice in planting corn, the co-op felt it had no other choice if it was to be recognized or supported.

On its own initiative, the co-op obtained a small startup loan for seed purchase from a local bank. The amount was insufficient for extensive cultivation of corn or subsistence crops. Food and money shortages and the continued violent opposition from local land owners--including an attempted assasination of one of the co-op organizers, Efraim Diaz--discouraged many. Member attrition was high; over 30 percent of the original group left in the first year to seek land and employment elsewhere.

After this first difficult year as a landholding body, the group's position improved. On the basis of the first crop returns, the co-op was able to obtain a loan from BANAFOM for 12,000 lempiras.[3] Increasing pressure on many fronts had impressed on the GOH the importance of supporting peasant land claims, and as part of this new support, INA's first attempt to implement the land reform law was made through Guanchias. In 1966, after 4 years of limited assistance, INA sanctioned the co-op's land claim petition and, by this, denied claims of larger landowners. Further, legal and financial aid from INA enabled the co-op to receive clear land entitlement. With this, the remaining 58 members were legally constituted as a cooperative institution in April 1966.

INA helped the group organize, providing advisers and technical support. As a legally constituted organization, Guanchias obtained a large, 70,000-lempira loan from BANAFOM, again for corn planting. Nevertheless, the co-op again encountered difficulties. The technical assistance provided was inadequate and conservative. The amount of harvested corn during the next year was low and even more was lost through poor storage by BANAFOM.

While co-op members recognized their own responsibility for some problems, they believed that many problems were related to lack of official support for agrarian reform. INA not only lacked a clear policy directive from the central Government, but also lacked funds and the expertise to provide adequate assistance. The inconsistency of the agrarian program eroded Guanchias' confidence in the professional ability of GOH employees of INA and BANAFOM.

After 2 years of following INA's advice and seeing little profit, the group abandoned corn cultivation for plantains.[4] The move involved a risk, because INA refused to sanction the switch and withdrew its credit and technical assistance. Despite the lack of INA support, Guanchias succeeded in its new efforts. Productivity improved and for the first time in its existence, minimal profits were realized. More important, this experience gave Guanchias the confidence to seek participation in Standard's new independent banana growers program.

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[3]In 1983, 2 Honduran lempiras were equivalent to 1 U.S. dollar. This 2:1 exchange rate has remained unchanged since 1981. Throughout this report, "current lempiras" refers to this exchange rate.

[4]The plantain is a member of the banana genus, which is grown primarily for local consumption as a cooked vegetable.

Since its beginnings, Guanchias had felt that the production and sale of bananas was a viable undertaking, but had been frustrated by both INA intransigence and its own inexperience in marketing. Association with Standard offered more potential through its marketing strengths than had been provided by INA.

INA, in the meantime, had undergone progressive and more liberal changes under the direction of Rigoberto Sandoval, who recognized the need to assist co-ops in cultivating higher yielding cash crops than corn. He also realized the financial limitations of the GOH. When the Guanchias co-op approached him for advice about participation in Standard's program, Sandoval strongly encouraged the co-op in this direction.

2.3 Standard Fruit's Independent Growers Program

For its part, Standard was interested in negotiating contracts with independent growers for a number of reasons. The previous success of United Fruit with independent growers had shown that purchase contracts were viable. Standard also believed that by depending on independent growers, it could increase volume without large investments in land, agricultural production equipment, and facilities that might be subject to expropriation. At the same time, arrangements with independents provided geographical diversification and economic and environmental hedges in times of adversity.

The political situation in the 1960s was potentially threatening. Land invasions of unoccupied fallow land had increased. The disproportionate amount of land held and worked by the large agribusiness firms was criticized. In addition, Standard was concerned about wildcat strikes in its own operations. The strikes had increased in frequency after the 1954 banana strike.

Standard had at first been doubtful about the advisability of contracts with independent growers, especially contracts with newly formed cooperatives, some with members known for their liberal leanings. Standard also questioned the capabilities of peasants as independent contractors. At the same time, potential benefits were recognized. After serious discussion both in Honduras and at company headquarters in New Orleans, a decision to negotiate was made based on estimates of what Standard would have to contribute in order to assist independent growers to become viable suppliers of quality bananas.

2.4 First Negotiations

Both the cooperative and the company came to the contract negotiations with pressing needs and the determination to make the contract successful: Standard needed bananas, Guanchias needed a market for its fruit. When the initial contract with Standard was signed in 1968, the co-op had been in existence as a formal group for 3 years and had barely survived under hard times and strained financial circumstances. The co-op was encouraged by the promise of financial security through guaranteed purchases by Standard and credit assistance from both INA and Standard.

Two sets of factors influenced the social development and economic growth of the Guanchias cooperative over its 15-year history and its successful collaboration with Standard. The first were internal or human factors within the co-op, such as shared cultural values, commitment to cooperative principles, and effective leadership. The second were external or business factors associated with Standard, such as financial, technical, and administrative assistance, plus an assured market. The close links between these account for the co-op's unusual success and the success as well of its business association with Standard.

3. DEVELOPMENT AT GUANCHIAS COOPERATIVE

To the Guanchias-Standard relationship, Guanchias leaders brought a strong commitment to the work ethic, an appreciation of labor as equity capital, confident leadership willing to take risks, and loyal and mutually supportive members. Though the co-op members had only a rudimentary sense of agronomy and profit making, they were willing to learn and did.

3.1 Cultural Values and Leadership

One of the most striking characteristics of the Guanchias cooperative is its group ideology, which identifies individual well-being with the long-term viability of the cooperative. For Guanchias members this has required a shift in individual perception from that of being a field laborer to being a landed owner and partner in a profit-making enterprise. With this mental shift occurred a willingness to take risks; in short, a concept of entrepreneurship evolved. The co-op members as landed owners quickly came to realize that excessive wage demands, benefits, and bonuses could adversely affect overall growth of the cooperative and, in turn, reduce the value of each member's individual equity in it. They learned to negotiate internally in their own cooperative as well as externally with Standard.

The profits realized from the contract with Standard are consistently reinvested into the cooperative for capital expansion. Under an effective system of economic incentives rather than accrued savings, members receive daily wage payments along with an additional share in co-op profits according to number of days worked. The annual wages per member, calculated on the basis of daily pay scales, increased from 200 lempiras in 1965 to 4,848 lempiras in 1980 (see Table 1). The daily wage of 18 lempiras paid to Guanchias members in 1980 was substantially higher than the national average daily wage of 5 lempiras and is comparable to the daily rate of 17.24 lempiras paid by Standard to its union employees.[5] These daily wages or share payments are recalculated annually on the basis of projected cash earnings in relation to budgeted co-op expenditures and capital outlays.

Table 1. Annual Wages of Guanchias Cooperative Members, 1965 to 1980
(in current lempiras: 2 lempiras = US$1)

Year	Daily Wage	Annual Wage
1965		200
1969	3	800
1970	6	1,600
1975	8	2,112
1977	12	3,192
1980	18	4,848

Source: Guanchias records.

While this growing entrepreneurial orientation of the co-op was mainly acquired, it has some roots in the background of its members. Those who had worked previously for United Fruit had

[5]Daily wage for co-op members represents a guaranteed wage and does not include cooperative bonuses, outside income, or co-op equity.

absorbed the concepts of a capitalist work ethic and discipline which they adapted to their own farming efforts. Cultural heritage was also influential; some of the first members were migrants from El Salvador, where land shortages and population pressures made intensified labor more necessary. This capitalistic work ethic was reinforced in the co-op's relationship with Standard and exposure to the company's farm management methods. Another influence was the experience of some Guanchias members on Israeli communal farms.[6] They were impressed by Israeli economic and social successes based on communal living, group profits, and intensive cultivation of the soil.

A strong commitment to effective and democratic leadership has also been a critical factor in the growth of Guanchias. Persistent, determined leaders such as Efraim Diaz, Armando Fuentes, and Salvador Garcia have contributed to Guanchias' influence and success. Perhaps without such strength of leadership, the member attrition rate might have been even higher during the co-op's first 3 years when Guanchias was under the greatest economic strain and faced its greatest test of institutional endurance.

Guanchias built up a tradition of effective leadership by avoiding the formation of and subsequent domination by a privileged elite, which have often plagued many of the agrarian reform groups. Partly, this is explained by the co-op's rotation system. Of the 197 Guanchias members, over 40 percent have held elected positions at some point. A few have served in more than one position, several having held as many as five positions at different levels of authority.

3.2 Institutional Development

Steady growth of Guanchias as a viable cooperative institution has been dependent on the active, continued participation by co-op members. This sustained commitment required substantial and continuing investments of time and energy by individual members. The success of the co-op in attracting this high rate of participation is based on members' perceptions that collective action as a cooperative secures them more benefits than would their comparable investment in costs, time, and risks as individual farmers.

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[6] Internships for periods of 3 to 6 months each to Efraim Diaz, a leading co-op founder, and three other Guanchias representatives were sponsored by the Israeli Government over a 15-year period.

A feature critical to Guanchias' growth as an institution has been the ability of the group to avoid overpoliticizing conflict and to agree on common goals. Factionalism has been minimized through a policy of careful selection of members on the basis of shared objectives and goals.

Outside observers have often criticized this policy as stringent and restrictive, because membership has remained relatively small. To the members of Guanchias, however, this policy makes good economic and social sense and its restrictiveness is considered necessary to guarantee growth in profits and investments as well as member benefits. Thus, increases in total membership are carefully correlated with growth in agricultural production.

In the 17-year history of the cooperative, membership has risen from 58 in 1966 when the co-op was legally constituted to 197 in 1983 (see Table 2 for a demographic profile). This expansion has occurred in five stages: the first major increase in acreage in the Sula Valley (1967), expansion into the Lower Aguan Valley (1972), diversification into animal husbandry projects (1973), and expansion in acreage in the Sula Valley (1977, 1980).

Table 2. Demographic Profile of Guanchias Cooperative Members

Age Cohort	Number	Literacy Rate
19-29	44	98
30-39	71	86
40-49	44	71
50-59	21	91
60+	17	47
	197 (total)	

Source: Guanchia records.

Although membership preference is given to relatives, membership is nominally competitive and open to any Honduran farmer between the ages of 16 and 30. The primary basis for consideration is demonstrated work ability in one of the Guanchias' agricultural projects. A large percentage of the work force is thus composed of laborers, both relatives and nonrelatives of current members, who aspire to membership.

All members admitted so far have been men. This permits limited participation by women and gives the men greater financial dominance, which has caused some marital problems. Yet, the expansion of operations has provided employment opportunities, particularly in the banana packing plants, where preference in hiring for salaried positions is given to female relatives of Guanchias members. Women generate other income, too, within the housing compound through their participation in animal husbandry and their management of in-house stores. Also, several women are salaried employees in the co-op administration.

Salaried workers do strive in the hope of becoming members. The trial period of employment provides an opportunity for cooperative members to evaluate the work performance of prospective members and to assess their moral character and commitment to communal enterprise. Members feel this commitment to the cooperative is crucial because one of Guanchias' strengths lies in its continual reinvestment of earnings in operating capital rather than member dividends. As members' profits are credited to their accounts, the co-op's cash reserve--and each member's equity--steadily increases. With this accumulated capital, the co-op as an institution has been able to achieve more improvement in the overall standard of living than individual members could effect singularly. This success is reflected in the co-op's delivery of basic services to its members.

Compared to other Honduran co-ops this ability is significant. In one study of the agricultural reform sector, 31 percent of co-ops sampled provided no services to co-op members, and only 10-17 percent reported providing anything more than credit.[7]

3.3 Co-op Social Services

The financing of social service projects draws on capital generated from profits through the business association and some contributions from Standard. Adequate housing for all members was one of the first objectives of the co-op and one of the first capital expansion projects undertaken. A total of 123 modern, cement-block houses have been completed during two construction phases in 1973 and 1979. All houses are provided with sanitation services, electricity, and potable water.

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[7] J. Siegens, R. Rosa, and V. Ramirez, A Study of the Cooperative Movement in Honduras (Washington, DC: Agricultural Cooperative Development International, 1982).

Today two-thirds of all co-op members working in the central operations live in this housing project. Other co-op members live in their own housing in the nearby villages of Santa Rita and Agua Blanca. Much of this housing was purchased using interest-free loans from the co-op. Rental subsidies are provided for members temporarily unable to obtain housing in the compound. Housing becomes available when members die or move into their own homes in town.

Reduction in illiteracy and improved access to educational opportunities have been achieved through co-op sponsorship. The co-op has supported and subsidized expenses for adults attending technical courses and literacy programs. Adult literacy for co-op members is 82 percent compared to the national average of 60 percent.

Primary education for children was encouraged by the co-op's construction in 1973 of a school within the main housing compound. While the GOH pays the teacher salaries, the co-op furnishes materials, books, and furniture. Presently, 246 students attend the six grades, including 43 children from local communities. Over 75 percent of co-op children complete the sixth grade compared with a national rate of 40 percent. To encourage attendance beyond the sixth grade, the co-op provides scholarships for member children. About one-half of these scholarships are to young women.

Access to primary health care has been achieved through construction of a medical clinic, for which maintenance and staffing costs are met by the co-op. The clinic is small, but is staffed by a full-time doctor and nurse who provide medical attention and emergency treatment to all Guanchias members, salaried workers, and their families.

3.4 Organization and Management

Institutional development and the management of its member services have been supported by an effective organization. The growth of the co-op farm operations and financial capacity necessitated development of mechanisms to integrate and manage co-op services and business activities under the supervision of its collective ownership.

Guanchias cooperative has become a major local employer. In addition to co-op members, the weekly work force fluctuates between 400 and 500 depending on the seasonal activity, including 60 women employed in the packing plants.

Guanchias' operations in the Sula Valley have increased from one plantation of 500 acres to two farms with a total of 1,350 acres planted in bananas. Banana farm operations include planting, cultivating, and packing fruit for export and transfer to shipping containers. Other co-op landholdings are in the Lower Aguan Valley, with 200 acres planted in African palm and almost 1,000 acres used for cattle grazing. The total Guanchias productive land investment is 2,550 acres (see map on page ix).

Guanchias maintains livestock operations exclusively for co-op consumption and not for commercial purposes. These include 2,500 head of cattle, 500 pigs, 4,500 chickens, and 50 sheep. Additionally, the co-op runs its own carpentry shop for building repair and small furniture construction and an electrical-mechanical shop for machinery maintenance and repair.

The co-op has grown markedly in its financial capacity as its profits from the Standard association have steadily increased. With farm equipment capitalized at 40,000 lempiras in 1967, the total farm machinery now used exceeds 1.3 million lempiras at its undepreciated cost. Land and constructed buildings at cost (net of accumulated depreciation charges) constitute 1.5 million lempiras of the co-op assets. Investments, including the co-op housing project with utilities, the school, and the community center, currently exceed 2 million lempiras. Indeed, the members' equity in the cooperative has accumulated from practically nothing, except the land it had in its early beginnings, to over 5 million lempiras today, or approximately 25,000 lempiras per member. This internal growth through retention of earnings has supported the additional asset growth through external financing. Commercial loans and loans from Standard now approximate 3 million lempiras.

With growth in its capital strength, Guanchias achieved some economic independence from Standard by gradually absorbing more of the costs associated with disease control, irrigation, and transportation (see Appendix B, Tables B-1 and B-2). Less than a decade ago, the co-op was not able to absorb any of these costs; the contracted purchaser, namely Standard, covered them. Now Guanchias annually spends as much as 400,000 lempiras for irrigation, and over 2 million lempiras for transportation costs.

Management of these activities is dependent on efficient organization. Guanchias has been effective in developing organizational features responsive to policy-directive and administrative-management needs. Planning is usually initiated by the Administrative Council but debated, modified, and approved, at least in general outline, by the General Assembly, which embraces all co-op members. Elections for the Administrative Council, president, and Advisory Committee are held yearly. The general manager is nominated by the Administrative Council and approved by the General Assembly.

Great importance is placed on the fact that cooperative management is internal and that all members, including elected officials, are paid equally regardless of the level of authority or responsibility. Members do, however, recognize the inherent differences among positions. While all jobs are paid equally, some jobs include administrative or supervisory assignments, whereas others require more arduous physical labor. Job assignment, the responsibility of the president, is often influenced to a degree by patronage. Nevertheless, members argue that this system of job assignment promotes job rotation and prevents the emergence of a privileged elite.

The frequency of elections has a powerful influence on the accountability of member-run daily operations; officials must always be cognizant of their actions, given the fact of the next election. Circumspect behavior is demanded not only of those who would like to remain in office but also of anyone who plans to present himself as a candidate for the next administration. Elected governing officials for one period might be field laborers the next year, and conversely. One president credited with being an effective leader, for example, served two nonconsecutive terms and is now a field laborer in one of the Sula Valley plantations. Although tenure of elected positions is short, usually 1 or 2 years, the positions are desired because of the accompanying authority, patronage, and perquisites.

The political nature of job assignment belies the degree of organization that characterizes the farm operations of the cooperative. Although personnel change, a highly defined chain of procedures remains in place throughout the frequent elections. Supervisors of field projects are nominated by the president and approved by the council. Currently, two supervisors are responsible for administering the operations of the two banana plantations (see Figure 1). Under each supervisor are four field foremen, each in different areas within the plantation and responsible for 30-40 members and salaried workers (see Figure 2). Under each field foreman are subgroups of 10-15 workers each led by a subgroup chief. In addition to the two plantation field supervisors, eight supervisors of other projects have their own chains of command.

With its growth as a cooperative institution, Guanchias has been confronted with personnel problems: wage disputes, provision of benefits, employer-employee relations, and member policies. The minimal expansion of total membership has intensified dependency on a salaried force. A tendency by some members to work less than a full 6-day work week also exists. Although members are not paid for days not worked, their absenteeism affects productivity, commitment, and member supervision. Further, some members take advantage of the co-op's favorable lending policy to supplement incomes. General member indebtedness has become a serious problem as a small minority rely on loans to increase

Figure 1. Organization Chart: Guanchias Ltd.

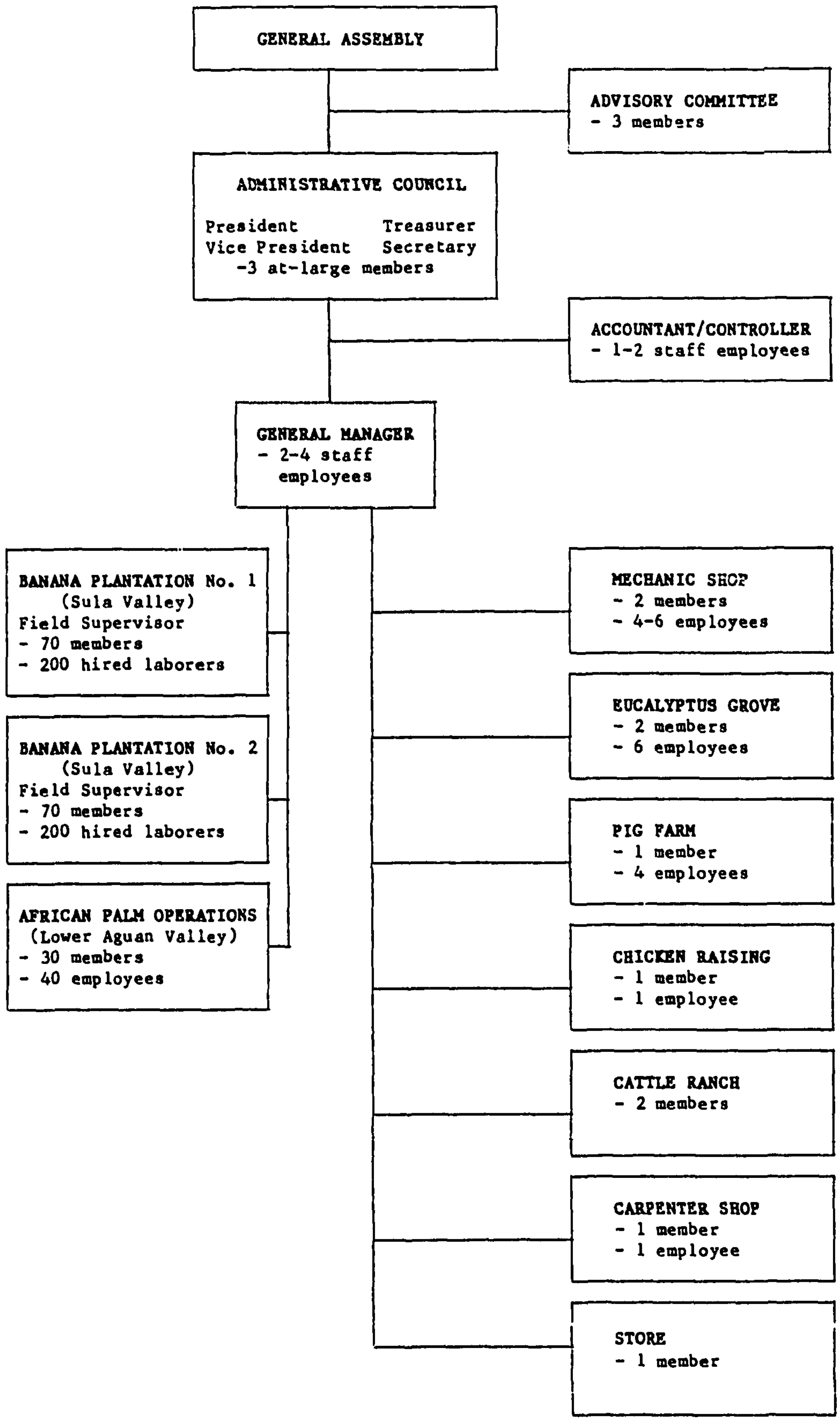
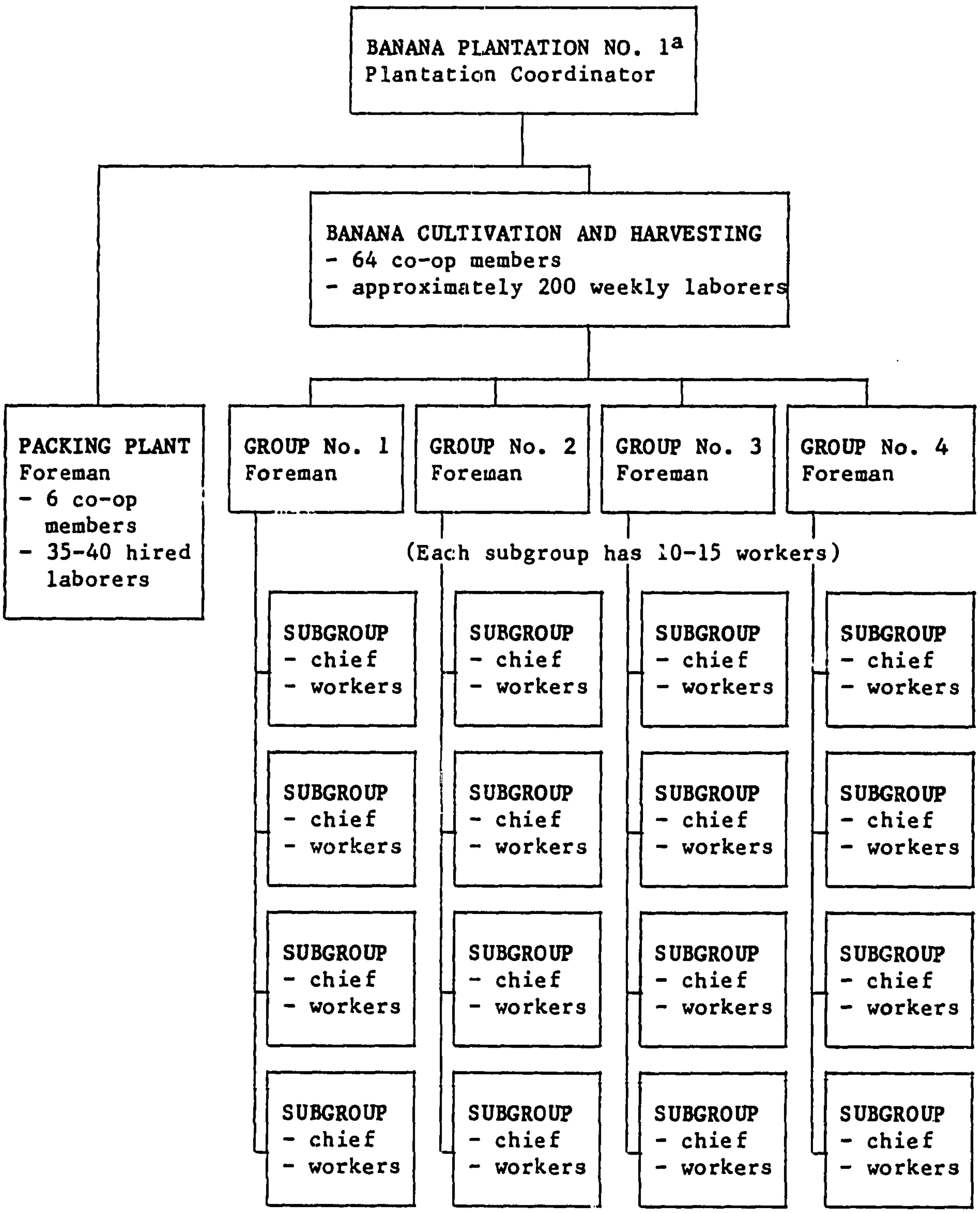


Figure 2. Organization Chart: Guanchias Ltd. Banana Plantations



[a]Plantation No. 2 has an identical organization chart.

standards of living. Over 50 percent of the amount of outstanding loans has been incurred by 20 percent of the membership.

A very important element of management continuity and organizational effectiveness lies in the key positions of general manager and accountant-controller. During its 18-year history, the cooperative has elected only four general managers, one serving two nonconsecutive terms for a total of 13 years. The accountant-controller, who is also the only nonmember executive, has been employed by the cooperative since its beginning. These executives as well as the other co-op leaders certainly have been dedicated to the co-op and to cooperative principles.

3.5 Promotion of Cooperative Principles

Co-op leaders have acted as brokers in the national agrarian movement and have been active and effective leaders in pressing claims of peasants for land reform. The participation of members such as Diaz and Fuentes in FECORAH has been supported by Guanchias. The co-op continues to pay the salaries for their full-time work in these umbrella organizations.

The co-op also has attempted, when possible, to assist other agrarian co-ops with at least elementary technical, managerial, and financial assistance to the extent of its own less than complete capacity. In some cases, Guanchias has made direct cash, no-interest loans while in others the co-op has lent farm machinery and provided farm management extension services. Such dedication to the cooperative effort shows the effectiveness of leadership development and the organizational capacity of Guanchias.

Human factors figured strongly in Guanchias' success. Initially, there was a strong psychological effect in the movement away from being landless peasants toward becoming landed shareholders in a community enterprise. It gave these former peasants a sense of self-worth which was entirely new and thoroughly satisfying to them as individuals and as co-op members. They learned and honored the value of work from earlier association as laborers with foreign investors just as they learned the value of community effort from their experience in Israel.

The dedication and effectiveness of the co-op's leadership are noteworthy, because leaders did not attempt to concentrate authority in a few hands or engender an elite within the co-op. Leadership has been shared among members, thus creating a new learning experience and developing new capabilities. The cooperative taught an important and appropriate lesson for Hondurans: by pooling labor, energy, and talents, a group sometimes can be more effective than individuals coping alone within the system.

4. THE ROLE OF STANDARD FRUIT COMPANY

A critical feature in the success of the contractual relationship was the contributions made by Standard: financial support, technical and administrative assistance, and a guaranteed market for Guanchias' fruit. Just as important, Standard also benefited; the Guanchias-Standard contractual relationship was not a one-sided success for the Guanchias cooperative. Standard entered into the relationship after careful analysis, with the expectation that returns would justify costs.

4.1 Initial Investment

The Guanchias contract was an outgrowth of Standard's long involvement in Honduras. The effort to sign new growers was an outgrowth of the Independent Planters Program implemented in the mid-1960s when Standard realized that any expansion of its own facilities would be costly and that alternatives had to be sought. The contract with Guanchias was one of the first signed under this new program.

The move required a slightly different role for Standard than it had played previously in Honduras. At the turn of the century, when Standard first expanded into banana operations in Honduras, the company discovered that it would have to provide the full range of infrastructure--almost a municipal government service--to support a community plantation organization, in addition to its own agricultural operations.

The northern coast of Honduras was then an inhospitable jungle where economic development had been largely neglected by the central Government in Tegucigalpa. There were no roads, power or lights, hospitals, sanitation facilities, or banks. Even to relocate management personnel, Standard had to provide basic public services roughly comparable to those available in the United States. Standard established schools, medical services, and the Atlantida Bank, and built a municipal water system, sanitation facilities, and roads.

Under the Independent Planters Program, Standard faced needs beyond the basic economic and social infrastructure already in place. Now in its new growers program, Standard was required to provide a completely new range of administrative and technical services to support a first generation of inexperienced people determined to make money for their cooperative. Standard also needed to coordinate this program and to ensure itself a regular supply of quality bananas.

Initially, the Standard staff for the growers program was small. As operations became more clearly defined, Standard found it necessary to establish permanent, local offices in the small town of Progresso, located about 15 miles from Guanchias. The primary function of these offices was to serve the administrative and technical needs of all independent growers. Over the years, staffing needs have grown. The local staff presently has 75 employees and is organized into four groups: production, packing, maintenance, and office services (see Figure 3).

4.2 Assured Market for Quality Fruit

Access to a secure and profitable foreign market has probably been the most significant factor in the relationship of Guanchias with Standard. Not having to develop a marketing function, Guanchias was able to concentrate on improving production and developing administrative controls. The resulting economic stability allowed Guanchias to develop more efficiently than otherwise would have been possible.

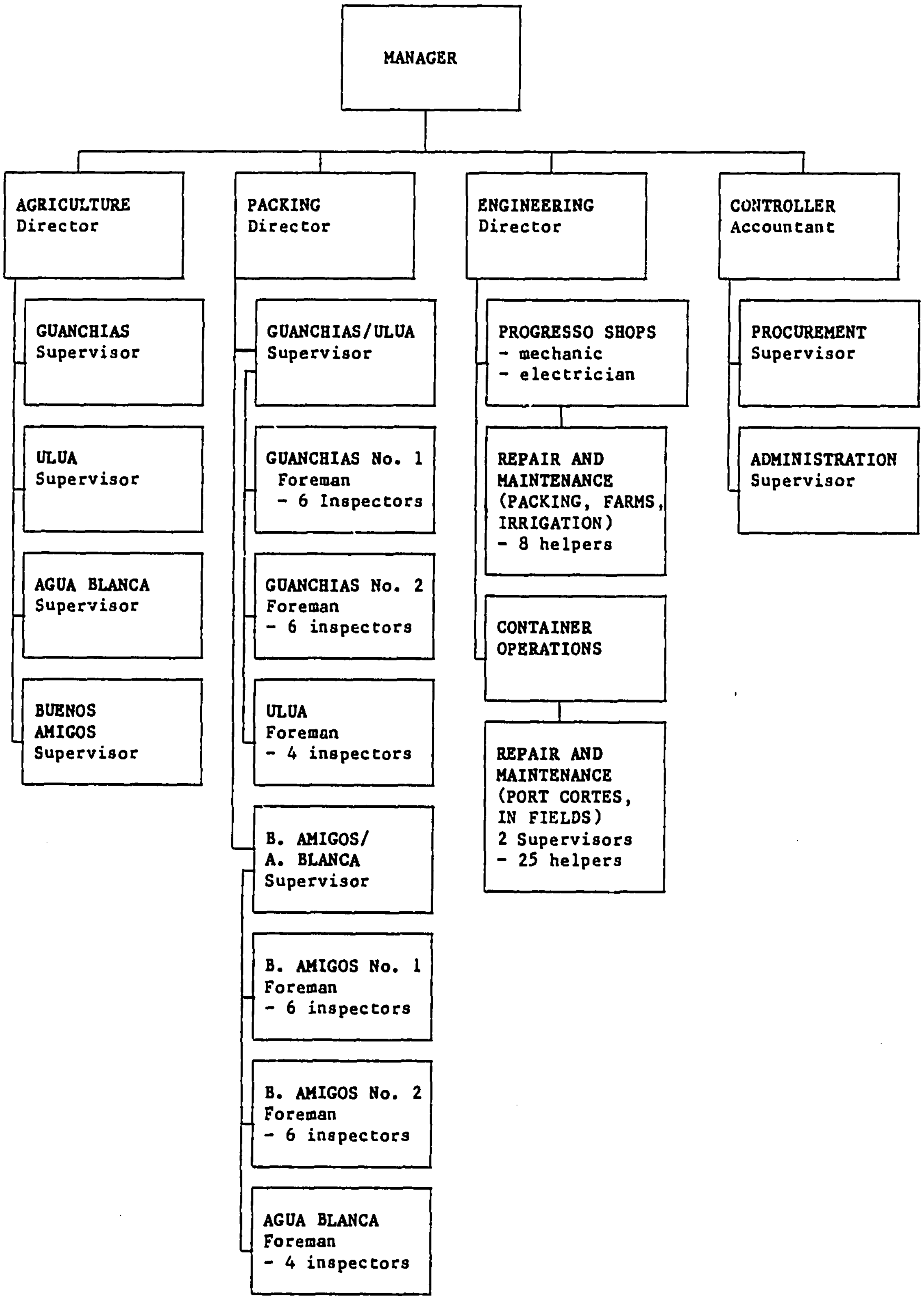
Standard guarantees the purchase of all fruit that meets quality standards, at a price renegotiated periodically. It transports the bananas by boat to Gulfport, Mississippi where they are sold on the wholesale market for distribution to retail outlets throughout the United States.

Under terms of the contract, Standard is obligated to negotiate the purchase price at any point during the contract if co-op costs rise above a certain percentage. Under the fruit purchase contract, this clause serves as a mechanism to trigger renegotiation of the purchase contract when cost pressures rise. Renegotiation under the price revision clause is not necessarily on an annual basis. The definition of these producer "costs" can be a critical issue in the actual price negotiated between Standard and Guanchias. In negotiating the price, Standard excludes labor costs directly related to banana production. The co-op, however, believes that costs should include local labor costs as well as materials at local prices.

Guanchias is a partner, not a client of Standard's in this contract. As a buyer, Standard "advertises" the benefits offered by its collaboration by familiarizing the co-op with market conditions. Periodically, Standard sponsors trips by co-op members to the United States to observe banana sales and prices of the wholesale and retail market. Intermediary risks and costs of transportation, distribution, and spoilage explain the difference in prices paid by Standard and those paid by the consumer in the U.S. market.

The ability of a large, diversified multinational company to absorb market risks that would bankrupt smaller organizations is

Figure 3. Organization Chart:
Standard Fruit at Progresso, Honduras



paramount to Guanchias' success. The value of this purchase contract can be seen in the difficult-to-define cost to Standard of the marketing risk involved in the purchase of perishable fruit on a fixed production cost basis to be sold on a volatile market. Because of the frequency and severity of "blowdowns" (banana plants knocked over by high winds) and flooding in Central America, total banana production from Central and South America for sale in the United States or Europe can vary a great deal. Set against a reasonably stable demand, the wholesale price of bananas varies with the supply. The depth of these cycles, combined with their lack of periodicity, underscores Standard's risk inherent in the banana marketplace.

A component of this market risk is the Standard guarantee to buy all quality fruit. Short-run mismatches of supply and shipping schedules can lead to dumping of fruit. Recently, for example, Standard dumped 25,000 boxes of their own fruit with a value exceeding US$60,000. This places pressure on the quality control inspectors to tighten up quality standards in periods of oversupply.

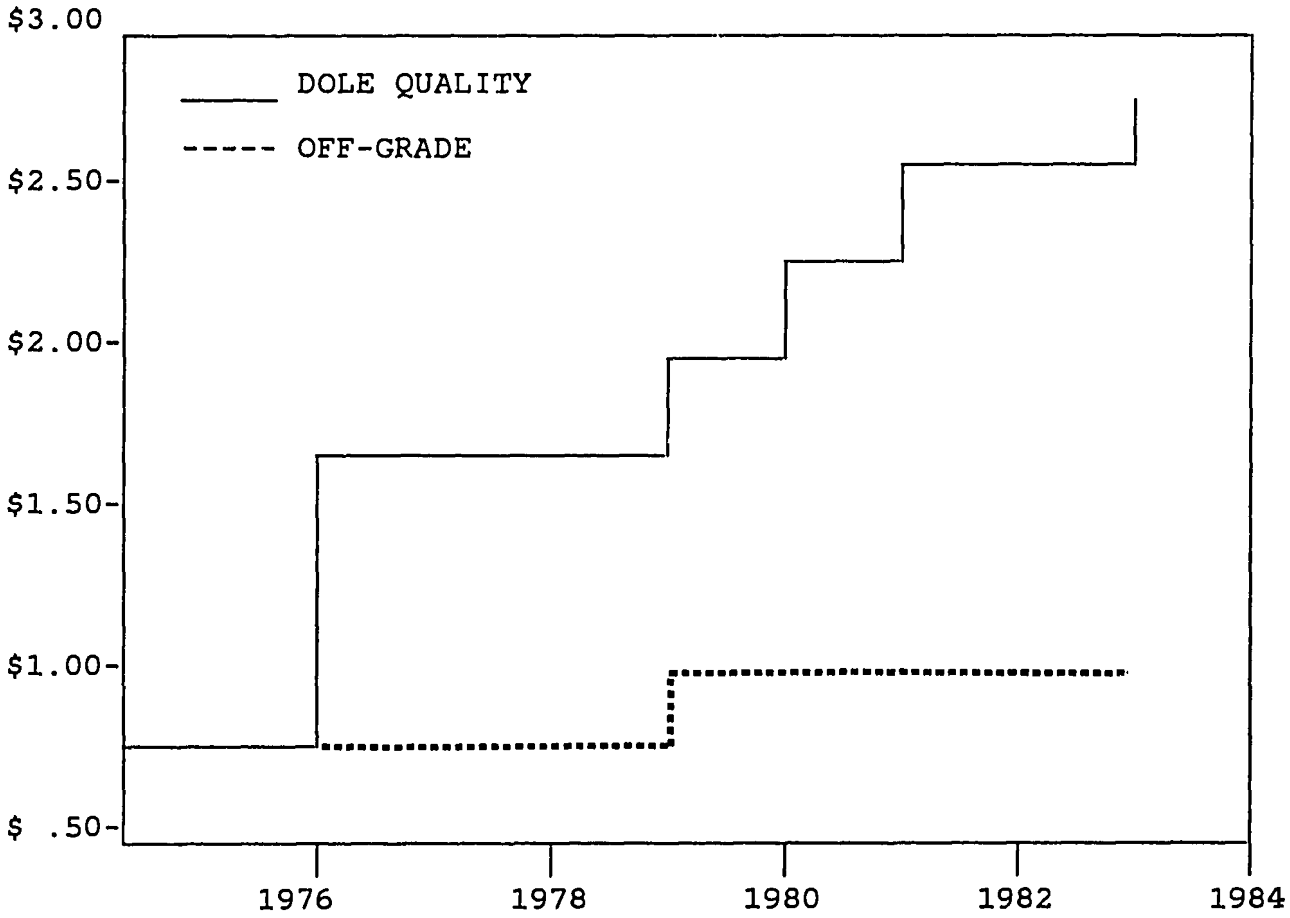
The quality classifications established by Standard are based on appearance, size, and weight of bananas. These standards can critically affect Guanchias' revenues because the price paid for top quality "Dole" bananas is significantly higher than for "off-grade" fruit (see Figure 4). Because Standard exports only Dole-quality fruit, the co-op often resells the second-quality fruit in the local market.

Despite criticism of Standard's quality standards, productivity figures for recent years suggest that the co-op has been successful in producing quality fruit. For 1981, the last year for which figures are available, the co-op produced over 1.4 million boxes of bananas of which less than 1 percent was listed as second quality.

4.3 Technical Assistance

The value of technical assistance provided by Standard to Guanchias has been important in two areas: the actual transfer of technology and the enforcement of a fairly rigorous agricultural field discipline. The agricultural research group in La Ceiba studies the growing conditions and insect and disease infestations at Guanchias just as it does for the company-owned plantations throughout Central America. Field problems that cannot be resolved by local Standard employees in Progresso are referred to Standard's senior research staff in La Ceiba who communicate frequently with the local staff, either by phone or through field visits.

Figure 4. Standard Fruit Company-Guanchias Cooperative Per-Box Fruit Cost, 1976 to 1984



Agricultural practices used on Standard's own farms have been implemented by Guanchias and other independent growers under contract to Standard. Rigorous and consistent follow-through on techniques, however, is often a function of economics for the co-op. Even though Standard provides materials at cost to encourage their use, the cost often influences the co-op's application of new technology. When possible, technical solutions are screened for economy and alternatives provided to the co-op. But Guanchias members familiar with less intensive agricultural practices can be suspicious of the added cost, rigor, and effort associated with Standard's procedures. Standard's technical support staff in Progresso plays a key role in facilitating adoption of the modern agricultural methods. These employees have worked interactively with co-op members to establish confidence and win their respect. Such interactions require sensitivity on both sides, but particularly from Standard employees.

The joint efforts to use such new techniques as chemical pruning, age calibration, and propping have resulted in improved quality as well as higher productivity. Banana production figures for 1980-1982 indicate that productivity of the Guanchias co-op, as measured by boxes of bananas per hectare, is higher than the productivity of other independent growers who do not use the same level of intensive agricultural techniques (see Table 3).

Table 3. Agricultural Productivity: Boxes per Hectare, 1980 to 1982

Grower	1982	1981	1980
Standard Fruit	3,183	3,488	4,004
Guanchias	2,676	2,663	2,945
Standard Suppliers (4 co-ops)	2,524	2,430	2,822
COHBANA (2 co-ops)	2,485	1,511	2,016
Tela R.R. (9 co-ops)	2,361	2,176	2,300
Sula Valley		2,176	2,339
Honduras	2,584	2,363	2,665

Source: COHBANA, 1983.

4.4 Financial Assistance

As was indicated earlier, Guanchias faced startup problems in its original inability to obtain sufficient financing from commercial or development banks. The agrarian reform program was in its initial period then and agrarian loans had low priority. Agricultural credit in general was limited, and both public and private lending institutions were reluctant to offer credit to cooperatives because their default rate had traditionally been high.

Standard assists the co-op with direct loans and by supplying materials at cost. Loans take one of two forms: extended lines of credit and capital expenditure loans. No interest is charged on the credit line, and the 9-percent interest charged for capital loans is far below the 10-19 percent interest charged by commercial banks.

The extended line of credit of from US$200,000 to US$300,000 has proved to be an important financial buffer. In the first instance, these advances for production credits have served as working capital that Guanchias has used not only for its banana operations but also for other agricultural projects that are technically not covered under its contract with Standard. Second, this open credit line to Guanchias has proved to be an effective insurance plan for disaster relief. After a recent blowdown when field production was below average, Guanchias used this credit line to meet current expenses, mainly payrolls. During emergencies such as this, the credit line can easily exceed US$1 million.

Standard provides, at cost, materials such as plastic bags, trailer tarpaulins, spare parts, cardboard, and other miscellaneous supplies, and controls the costs of fertilizer, sigatoka (fungus) control, transportation, stevedoring, and port expenses. Standard purchases these materials and services at substantial volume discounts and then transfers them to Guanchias. The savings to Guanchias are clear, whereas the cost to Standard is that of providing a brokerage function without compensation. When transfer prices to the cooperative are held constant as the world market price increases, the benefit to Guanchias becomes a direct cash cost to Standard.

The total direct costs of these supplies and services to Standard is estimated to be about US$2.40 to US$2.55 per box of 40 pounds of bananas. This includes the cost of materials, an allocation of part of the cost of the administrative technical staff in Progresso, applicable division overhead, and an export tax of US$0.52 per box. Combined with the negotiated payment to the co-op for each box, the overall cost to Standard for a box of Guanchias bananas is currently about US$5.25 to US$5.40. This cost is higher than for Standard's own fruit. The cost differential has increased over the past 5 years from US$0.26 to US$0.48 per box.

The effect of these transfers of materials is to understate the actual costs of services provided. The transfers can, however, be of benefit to Standard in that they serve to postpone the price negotiations that are triggered when co-op costs rise above a stated percentage. Standard prefers to avoid these negotiations because they usually result not only in higher prices per box but also in renegotiation of other issues.

As a result of these transfers, Standard has been able to minimize its overall cost per box of Guanchias bananas. Also of value to Standard is the incentive provided to the co-op to adopt costly technological measures to improve quality and productivity.

In its effect on Guanchias, this assistance can be viewed from two different perspectives. On the one hand, materials transfers result in more dependency by the co-op on Standard. If, however, the co-op were to purchase the materials on its own, the negotiated, per-box price with Standard might be higher but Guanchias would be taking more risks. On the other hand, the absorption of some costs by Standard allows for a negotiated price per box that is lower but more stable and predictable. This has provided opportunities for more sound financial planning for Guanchias.

4.5 Administrative Assistance

An important element in developing financial, managerial, and administrative skills in the Standard-Guanchias context has been that a considerable degree of control and rigor of discipline were applied initially by Standard until co-op members acquired a basic entrepreneurial orientation. Throughout the relationship, Standard has assisted Guanchias in maintaining financial records for banana sales, accounts receivables with Standard, and records of outstanding debts to third parties, such as merchants and public and private financial institutions.

Guanchias still depends on Standard for much of its bookkeeping. For example, Standard maintains records of the supplies purchased and transferred to the co-op at volume discounts. The purchases are charged against the co-op's open account with Standard and repaid when bananas are shipped. The procedure for settlement is arranged through a weekly credit for banana sales. From the credited sales, Standard deducts the payroll paid to the co-op for that week and a set figure used by Guanchias to cover its own expenses, other debts, and capital expenditures. The net amount is credited to the co-op's outstanding account. The amount is applied first to the current account for supply purchases and then to outstanding loans for large capital equipment and the irrigation system. Interest is not charged on the current account but is charged on the other lines.

When revenues are depressed, the current account rises, specifically when sales do not cover the week's payroll and the set weekly amount used by the co-op to cover weekly expenses. In such cases, by covering expenses, Standard is guaranteeing the co-op's payroll. When sales are up, the amounts of the current account and outstanding loans are reduced. This financial accounting system gives Standard great influence on co-op direction and initiatives. It also gives the co-op accountant/controller early warning on developing problems.

4.6 General Assessment of the Relationship

Guanchias has matured dramatically both as a democratic and a profit-oriented institution through its association with Standard. From exposure to Standard's business and technical procedures, co-op executives have developed their own capabilities for mature decisionmaking. As partners in a business venture with a multinational firm, the co-op encountered new responsibilities in its commitment to fulfill the terms of its contract to deliver quality fruit.

Further upgrading in Guanchias' capability to assume greater responsibility in its financial, administrative, and technical affairs is possible and necessary. However, at this stage of development the cooperative would be unlikely to want to reduce its dependence on a multinational corporation for marketing. The complexities and sophistication of international trading appear to be far beyond the capabilities of a co-op at this time and even seem outside any realistic scope for the GOH. Assumption of market risk will undoubtedly remain an exclusive domain for Standard and competing multinationals.

As for Standard, the total cost of all its financial, administrative, and technical assistance might have been higher if the company had expanded its own production in the Sula Valley. This is the fundamental benefit to Standard from its independent growers program. Standard avoided political and labor problems and gained a favorable public image by helping to strengthen and expand entrepreneurial institutions such as Guanchias.

Those observers who are quick to criticize the inherent "paternalism" fail to focus sufficiently on the very high initial costs to the foreign investor of opening up virgin lands and creating new communities out of jungle. Such undertakings require tremendous amounts of capital expenditures, training, patience, and above all, sensitivity to traditional cultures.

The growing independence and power of Guanchias resulting from its economic success has been consciously fostered by Standard. Ironically, this also makes Guanchias a more powerful stakeholder and better empowered to negotiate and enforce demands. While Standard is to be commended for its contribution to the development of an effective, democratic, and entrepreneurial local institution, the present situation signals a more mature and demanding role for Guanchias in the future. Much will depend on the multinational corporate policies as well as the long-range plans of both Standard and Guanchias. The very nature of Standard's protective relationship with Guanchias has bolstered the institution through a difficult initial period to a point where the co-op is, in fact, managerially independent.

Standard's role in promoting and advancing Guanchias as a fully independent organization poses an interesting dilemma for corporate management. On the one hand, Standard services have contributed directly not only to the economic well-being of the cooperative but also to its present level of negotiating sophistication and managerial independence. On the other hand, the cooperative is using its acquired skills to gain advantages for its members, thus circumscribing Standard's potential for profit as well as its freedom of action relative to Guanchias.

5. INDICATIONS OF SUCCESS: THE DEL MONTE OFFER

Guanchias' acquisition of managerial and administrative skills and the development of a certain sense of ownership and entrepreneurship can be seen in recent contract negotiations involving both Standard and a new challenger, the Del Monte Company. With the purchase contract set to expire in 1984, contract renewal negotiations between Standard and Guanchias opened in mid-1983. Del Monte, anxious to enter the market dominated by Standard and United Brands, offered Guanchias a contract that competed favorably with that offered by Standard.

In the beginning of negotiations, the Del Monte proposal was more attractive to the co-op. Del Monte offered not only a 30-percent increase in purchase price per box of exportable fruit, but also guaranteed annual review of price increases for all costs, including labor. This inclusion of labor costs under the price revision clause was an important concession for the co-op because a similar price revision clause in the co-op's contract with Standard did not include labor.

The co-op would, however, face new costs under a Del Monte contract. Del Monte would not offer the same materials procurement concessions and transportation assistance that Guanchias received from Standard. In addition, under the Del Monte contract, Guanchias would be responsible for the construction and maintenance of packing plant facilities. Previously, Guanchias reimbursed Standard for the use of two packing plants owned and operated by Standard on the co-op plantations. To offset these costs, Del Monte offered financial assistance and loans for construction of new packing plant facilities, but under less favorable terms than the co-op wanted.

After review of both offers, including a feasibility study prepared by COHBANA, co-op leadership recommended serious consideration of the Del Monte offer. On the concurrence of the General Assembly, a letter of intent was signed with Del Monte.

Guanchias continued negotiations with both multinational corporations in an effort to obtain more favorable concessions from one or the other. According to officials from both Guanchias and Standard, bargaining during the second phase was quite intense. Standard was determined to keep the co-op under contract because it was dependent on Guanchias for 10 percent of its Honduran banana supply for its market commitments (see Figure 5). After a series of counterproposals, Standard offered the co-op final terms that included not only elimination of technical assistance charges, but also transfer of title of Standard's two packing plants to the cooperative at the end of the 5-year contract for a total sum of US$1.00, and a substantial cash bonus for renewing the contract.

The Guanchias General Assembly went into its final phase of negotiations with two very attractive contracts to consider and vote on. When the terms of the two contracts were discussed in co-op meetings, members debated the value of immediate financial returns offered by Del Monte versus the durability of the relationship with Standard and the overall, long-term value of the contract.

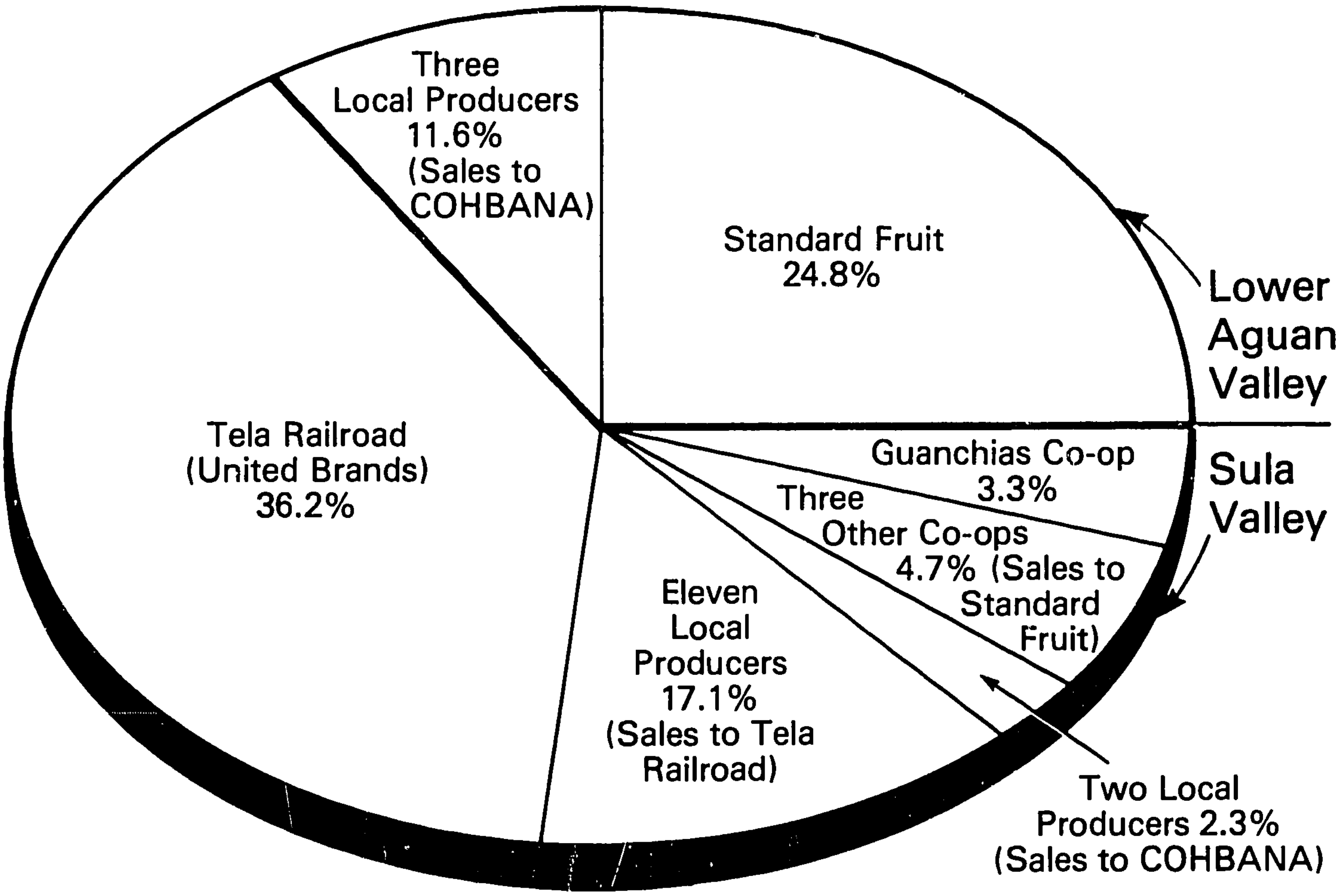
Because Del Monte lacked established investments in Honduras, the co-op feared the company might withdraw its operations if its initial collaboration with co-ops proved unsuccessful. Conversely, members recognized Standard's vested interest in seeing that its long-standing Honduran investments continue to be profitable.

Not until the final contract was voted on were any of the participants sure with which multinational corporation Guanchias would sign. In the end, Guanchias overwhelmingly approved renewal of the contract with Standard for 5 years. Guanchias members believed that a mutually beneficial relationship with Standard had been achieved and maintained with good faith on both sides for over 15 years and that Del Monte's offer did not provide sufficient incentive for change.

6. SOME POLICY IMPLICATIONS

Although factors contributing to the growth of Guanchias, the strength of its relationship with Standard, and mutual benefits for the partners can be identified, a textbook formula for the replication of this relationship is difficult to derive. The success depends, in part, on unique factors whose relative importance and contribution are difficult to isolate. Nevertheless, the study does offer insights into conditions for success, providing the basis for some general observations and discussions of some management and policy issues.

BANANA PRODUCTION IN HONDURAS
THREE-YEAR AVERAGE (1980-1982)



SOURCE: COHBANA Statistics

6.1 Management Issues for Guanchias

In its 18 years of existence, Guanchias has realized success far beyond original expectations. The time now seems appropriate for Guanchias to evaluate its social and economic performance and plan for its next 15 to 20 years of operations. Guanchias might well reflect on whether it should develop and refine its own analytical and strategic decisionmaking skills for long-term operational management and greater self-reliance. Such strategic planning might be undertaken by using professional consultants, either paid or voluntary, or through broad-based advisory boards.

In its planning, Guanchias might well ask if the full range of its internal programs and the general services provided members are the most efficient, effective, and beneficial for the institution in the long run. For example, its member lending policy--the amount and number of outstanding loans to members--is causing financial strain on the co-op's capital reserves. Should this system continue indefinitely? While the decision would be difficult, the co-op might ask members for their views on charging some minimum interest on loans, on establishing set terms and limits on the amounts lent, on setting terms as a percentage of the amount loaned, and on reinvesting the interest revenues in capital expansion.

Guanchias might also review its co-op housing project from an economic and social viewpoint. For example, what happens if an increasing number of members demand private, noncommunal housing? Could or should Guanchias consider offering low-interest mortgages for purchase and construction of homes? Could income generated from these arrangements be used for home construction for new members or for other purposes?

Another issue that Guanchias might review is whether to promote its own research and development capability and overcome some of the technological biases of its members. For example, could initiatives taken by the co-op in the design and maintenance of its present irrigation system be extended, and under what conditions? Could the co-op realistically assume some of the mechanical and technical services presently provided by Standard? Education and training courses might be necessary to arouse interest and identify aptitude among members. Also, the co-op might need outside financial support or an internal retained earnings plan to pursue such development.

6.2 Policy Issues for the Government of Honduras

While GOH agrarian reform legislation has been ambitious, the application of the law has been dependent on the willingness of various Government administrations to honor it. Recent re-organizations of INA should help the Government in planning and administering agricultural reform projects, if the requisite funding and commitment can be arranged. The GOH thus has constantly before it such basic questions as how important agricultural production and exports are in the economy and in foreign exchange earnings, and what policies must be advanced or strengthened to support the objectives.

The GOH could reflect on the opportunities of its current lending policies through BANADESA in the agricultural sector and whether credit facilities need be put on a more businesslike basis. There are also questions as to how best to collect on delinquent loans, and to provide sound financial counsel to co-op members before loans are granted. This might require training bank employees in the special needs of small farmers and the types of funding necessary for their particular problems.

6.3 Policy Issues for Economic Development Planners and Foreign Assistance Donors

The outlook for improvement in the severe economic crisis in Honduras in the mid-1980s is not optimistic for the near future. Real per capita growth is expected to be zero or negative because of a rapid population increase. The scarcity of foreign exchange and the tight money situation will limit capital investment. In addition, the political instability of the region hinders efforts to attract outside foreign investment.[8] These indicators suggest that foreign assistance donors might play an important role in Honduran economic recovery, especially in the key agricultural sector. With reflection on the issues, they need to decide whether and how they should collaborate with the host Government.

Because AID has already invested heavily in Honduran development, it might draw some lessons from the Standard-Güanchias experience. This relationship touches on all four pillars of AID's development efforts; namely, policy reform, involvement of the private sector, institution building, and science and

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[8]U.S. Embassy, Foreign Economic Trends: Honduras (Tegucigalpa, July 1983), pp. 2-3, 10-11.

technology transfer.[9] Lessons from the Standard-Guanchias relationship suggest an opportunity for AID to review with the GOH such issues as the clarity of definition and manner of implementation of agrarian reform projects; access to credit; the desirability of an expanded involvement of cooperatives in research and development; and co-op training needs in financial management and strategic planning.

Certainly AID policy supports linkages and business relationships that promote private enterprise and profit-oriented cooperatives. AID and other foreign donors could use the Standard-Guanchias study to illustrate that economic success is possible from linkages between multinationals and cooperatives in developing countries. To promote such linkages local and international private voluntary agencies could be useful as intermediaries to provide a variety of market-oriented services and training.

Cooperatives could be assisted in commercial agricultural production through identification of both potential cash crops and purchasers. This would require assistance in identifying market constraints and opportunities. To accomplish this, consideration could be given to the creation of a multiservice farmers' institution as a technical information center for agrarian cooperatives, and as a clearinghouse to coordinate efforts to obtain financial, technical, and administrative services. Such an indigenous farmers' organization could contribute to a better understanding of cooperative needs. It could be effective not only in providing direction and coordination of policy, but also in obtaining the support and involvement of other reform groups in their own development.

Further, mechanisms might be explored for ways of assisting with any extraordinary credit needs arising out of relationships between multinational corporations and cooperatives, especially when such needs cannot easily be met through normal public or private sources. One possibility might be the provision of direct, low-cost loans to cooperatives or corporations wishing to invest in U.S. capital equipment for expanded acreage and production.

Finally, this study of the Standard-Guanchias relationship raises questions about whether the lessons learned from the partnership could be adopted by other cooperatives or independent

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[9]See U.S. Agency for International Development, AID Policy Paper: Private Enterprise Development (Washington, DC, May 1982).

grower associations in Honduras and elsewhere. Sponsored seminars and workshops could test this hypothesis, using the Guanchias case as a paradigm.

7. CONCLUDING REMARKS

This study has shown that economic interdependence was a strong motivating factor in the economic and social success of Guanchias and in the mutually profitable relationship between Standard and Guanchias. Guanchias might have survived quite apart from its links with Standard, but without the extensive social benefits it enjoyed and certainly at a lower economic level than achieved with Standard support.

Had Standard not accepted Guanchias in its independent growers program, the company might well have sought the additional production from other cooperatives and independent growers, having discarded the option of expanding its own capital investment. But the results probably would have not been the same as they were from the model relationship with Guanchias. While Standard took a real gamble with an inexperienced and unproven production cooperative and had no way of accurately predicting the future 15 years ahead, it proved a profitable risk. Standard enjoyed profits for almost the entire period of the relationship. In addition, the company avoided risks associated with expanded investments and labor problems. Of almost equal importance, Standard gained enormously in public stature by following a socially responsible course. This favorable image of a foreign multinational helped attract other independent growers to Standard's program. Similarly, Guanchias proved to be responsible, dedicated, and well led--a model for other growers. Standard's outstanding success with Guanchias also has helped to make its relations with successive Government administrations smoother than they might otherwise have been.

The essence of the Guanchias experience lies in the determination of co-op members to escape the oppressive poverty cycle that traps many peasants. Guanchias members used the opportunities provided by the Standard relationship to develop their own capabilities and become self-sufficient. The struggle has required conscious effort but has resulted in changed aspirations by members for themselves and their families.

This pride and hope of Guanchias members are reflected in a response to an allegation that Guanchias succeeded because of a favored status and benefits not extended to other co-ops. "What Guanchias has, we worked and suffered for. You see my fancy shirt and you want one? Well, earn it! I worked hard with my brother cooperative members to make Guanchias a success. I have a right to wear this shirt. I believe my children will now have a good future."

APPENDIX A

BACKGROUND AND METHODOLOGY

1. IMPETUS FOR THE STUDY

In October 1981, at the Fourth Workshop on Multinational Managers and Third World Poverty held at the University of Notre Dame, a panel presented a case called the "Bolivia Self-Help Project." The panel consisted of Kevin Healy, a representative from the Inter-American Foundation; Roger Kelley, a Caterpillar Company financial executive; and Norlin Rueschhoff, Notre Dame accounting faculty member. Two primary issues were brought forth:

1. Are cooperatives a threat to the multinational enterprise or vice versa?

2. Should multinational managers assist in the development of cooperative business enterprises in developing regions?

A group discussion followed. A task force was then created to study the issues further. (A list of the task force members is attached to this appendix.)

The task force identified a situation in which a multinational enterprise and a co-op worked together for more than a decade. The case was in Honduras. Specifically, it involved a banana-producing cooperative, the Guanchias cooperative, and the regional offices of Standard Fruit, a division of the multinational firm of Castle and Cooke. The Standard Fruit Company has a contractual arrangement with the cooperative to purchase its bananas, to provide technical assistance, and to support the co-op in other ways.

2. FEASIBILITY STUDY

The task force proposed that two members visit the local banana cooperatives near Progresso in northeastern Honduras to ascertain whether the case meets the twin tests of profitability and social benefit and to determine the willingness of the involved parties to be the subject of a research investigation. The feasibility study was performed by Rev. Ernest Bartell, C.S.C., and Michael Rotolo in November 1981. The feasibility study showed that the visitors' observations and the remarkably sophisticated responses of the co-op members convincingly indicated that the co-op would stand up to rigorous analysis in terms of both social and economic criteria for the company and for the members of the co-op. Further, the local political climate was favorable in that both Guanchias and Standard were willing to allow the investigation.

A subsequent review of the literature showed that existing analysis tended to stress the social benefits of the cooperative. Among these studies was that performed by George A. Truitt for the Fund for Multinational Management Education (see Bibliography). The benefits of economic efficiency, development of entrepreneurial and managerial skills, and the mechanisms by which both the cooperative and the sponsoring multinational firm benefit deserved serious analysis and warranted further study and dissemination.

3. THE PROPOSAL

With the concurrence of the task force, a research project was designed and proposed to AID in early 1982 through Foreign Service International, a Washington-based consulting group. The idea for the project was favorably accepted by the AID policy group, but the funding mechanism could not be properly arranged. With some adjustment, the project was submitted through the Notre Dame Kellogg Institute for International Studies. Again, although the justification and need for the project were looked on favorably, the cost of the project led to the suggestion that it be rescaled. A revised proposal was submitted in July 1983 and was approved for funding through the University of Notre Dame Kellogg Institute for International Studies.

A study team was formed consisting of Dr. Lee Tavis, C. R. Smith Professor of Finance at the University of Notre Dame; Dr. Carolyn McCommon, an anthropologist with expertise on rural development in Honduras; Dr. Norlin Rueschhoff, a University of Notre Dame faculty member specializing in international accounting; and Jean Wilkowski, retired U.S. Ambassador and former Chargé d'Affairs in Honduras.

4. THE RESEARCH

The onsite research investigation was performed in Honduras and at Boca Rotan, Florida, during October and November 1983. Preliminary interviews were held in Washington, D.C., with representatives of Agriculture Cooperative Development International, the Inter-American Foundation, the Latin American International Division of the U.S. Chamber of Commerce, and U.S. Embassy, and AID officials. Records were examined and interviews were held with key Standard Fruit representatives in La Ceiba, San Pedro Sula, Progresso, and Tegucigalpa in Honduras as well as at Boca Raton in Florida. Records were examined and interviews were also held with key Guanchias representatives at the co-op site. Further, the co-op operations in the Lower Aguan Valley were visited and a household census was undertaken based on a representative sample of residents in the Guanchias cooperative area. Finally, interviews were held with officials of USAID, INA, COHBANA, and FECORAH in Tegucigalpa.

5. TASK FORCE MEMBERS

The following is a list of task force members. D. W. Furbee and Norlin Rueschhoff were designated as co-chairmen of the task force.

Notre Dame Seminar on Multinational Managers and Poverty in The Third World

Cooperative Task Force Members

Rev. Ernest Bartell, CSC
Executive Director
Kellogg Institute
University of Notre Dame

John Caron
President
Caron International

Leo A. Despres
Professor of Anthropology
University of Notre Dame

D. W. Furbee
Vice President
Castle and Cooke, Inc.

Doug Ivester
Vice President and Controller
Coca-Cola Company

Kenneth Jameson
Associate Professor of Economics
University of Notre Dame

Roger T. Kelley
Vice President (Retired)
Caterpillar Tractor Company

Michael M. Rotollo
Vice President
Latin American Activities
Real Estate and Diversified Division
Castle and Cooke, Inc.

Norlin G. Rueschhoff
Chairman
Department of Accountancy
University of Notre Dame

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Lee A. Tavis
C.R. Smith Professor of Business
University of Notre Dame

Jean Wilkowski
Chairman
Board of Directors
Volunteers in Technical Assistance

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APPENDIX B

COMPARATIVE INCOME AND EXPENSE STATEMENTS AND BALANCE SHEETS FOR GUANCHIAS LIMITADA

Table B-1. Comparative Income and Expense Statements for Guanchias Ltd., Selected Years, 1971 to 1982 (in thousands of lempiras; 2 lempiras = US$1.00)

Item	1982	1981	1976	1971
Banana Sales	11,439	11,219	1,850	1,284
Other Sales	591	284	431	93
Other Revenues	301	503	144	16
Total Revenues	12,331	12,006	2,425	1,393
Costs				
Banana Cultivation	2,764	2,342	671	902
Disease Control	665	664	--	--
Packing	2,741	2,880	142	--
Repair and Maintenance	362	314	154	19
General and Administrative	1,745	887	390	39
Irrigation	406	311	65	--
Transportation	2,274	2,624	--	--
Other Operations	1,320	1,270	629	221
Total Expenses	12,277	11,292	2,051	1,181
Net	54	714	374	212

Source: Guanchias records.

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Table B-2. Comparative Balance Sheets for Guanchias Ltd., Selected Years, 1971 to 1982
(in thousands of lempiras; 2 lempiras = US$1.00)

Category	1982	1981	1976	1971
Current Assets				
Cash	265	230	159	38
Receivables	1,543	1,435	672	133
Inventories	1,271	1,087	90	8
Total Current Assets	3,079	2,752	921	179
Machinery & Equipment (net of depreciation)	1,313	1,353	221	181
Land & Buildings (net of depreciation)	1,506	1,449	365	653
Community Assets & Other Investments (including work in progress)	2,019	1,750	1,678	373
Other assets	27	80	4	15
Total Assets	7,944	7,384	3,189	1,401
Liabilities				
INA	664	534	100	133
Banks	1,385	1,046	830	231
Standard Fruit	479	15	93	--
Other	412	567	84	--
Total Liabilities	2,940	2,162	1,107	364
Co-op Equity	5,004	5,222	2,082	1,037
Total Liabilities and Equity	7,944	7,384	3,189	1,401

Source: Guanchias records.

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APPENDIX C

NOTES ON THE AUTHORS

Carolyn McCommon, Ph.D., is an anthropologist and a consultant on international development. She has had extensive experience in Honduras, particularly in analysis of rural organizations and labor patterns on northern coastal populations. Her doctorate from Pennsylvania State University was completed in 1982.

Norlin G. Rueschhoff, Ph.D., CPA, is a member of the accountancy faculty at the University of Notre Dame. He is the author of International Accounting and Financial Reporting and coauthor of a monograph entitled Accounting Education and the Third World. His professional memberships include the Inter-American Accounting Association and the National Society of Accountants for Cooperatives. He presently serves on the International Section Advisory Board of the American Accounting Association and on the International Practices Committee of the American Institute of Certified Public Accountants. He has had experience as an international operations accountant and auditor in Western Europe, North Africa, and the Near East.

Lee R. Tavis, DBA, is the C.R. Smith Professor of Business Administration at the University of Notre Dame. He has conducted extensive research into business decisionmaking in the Philippines, France, and South Africa, as well as throughout Latin America. In addition to his work in international financial management, he is the Director of the Notre Dame program on multinational corporations and Third World development. The results of the first 3 years of this program have recently been published by the Notre Dame Press under the title Multinational Managers and Poverty in the Third World.

Jean Wilkowski is a former U.S. Ambassador (Zambia and UN-UNCSTD), Chairman of the Board of Directors of Volunteers in Technical Assistance (VITA), and a member of the Advisory Committee for International Programs of the National Science Foundation. She served as Minister Counselor for Economic and Commercial Affairs at the U.S. Embassy in Rome, as Deputy Chief of Mission and Chargé d'Affairs in Tegucigalpa, as U.S. negotiator for the General Agreement of Tariffs and Trade (Spain and European Economic Community), and as Assistant Commercial Attaché in Paris. She has led two science and technology missions to the Peoples Republic of China and others to Thailand and Panama, and is presently a director of CPC International.

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